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FM AMEMBASSY MADRID
TO RUEHC/SECSTATE WASHDC 0803
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHLA/AMCONSUL BARCELONA 4030
RUCPDO/DEPT OF COMMERCE WASHDC
RHMCSUU/DEPT OF ENERGY WASHINGTON DC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS MADRID 000591

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STATE FOR EUR/WE, EEB/IFD/OMA, EEB/TPP/IPE
COMMERCE FOR 4212/D.CALVERT
ENERGY FOR PIA/K.BALLOU
TREASURY FOR OIA/OEE/T.O'KEEFFE,D.WRIGHT

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EIND](#) [ELAB](#) [ENRG](#) [SP](#)
SUBJECT: MADRID ECONOMIC WEEKLY, JUNE 15-19

REF: MADRID 576

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Zapatero, Rajoy Spar over Tax Hikes

1.(U) President Zapatero was on the defensive this week over excise tax hikes on cigarettes and fuel announced last week. Zapatero said the increases were needed to address the growing budget deficit (approaching 10% of GDP this year) but that there would be none further this year. He also said the worst of the economic crisis had passed. Opposition Popular Party leader Mariano Rajoy blamed Zapatero's "dreadful economic policies" for the drop in tax receipts and the overall slowdown in economic activity. He also called the timing of the increases "deceptive," given that the GOS approved them at the end of last week, only days after the European Parliament elections. Comment: The tax increases are relatively minor -- adding around 7% to cigarette prices and less than 3% to fuel prices -- and Spanish cigarette and fuel prices remain below those in neighboring countries. (El Pais, 6/16, 6/18)

Central Bank Governor, Labor Minister Disagree on Labor
Market Reform

2.(U) Bank of Spain Governor Fernandez Ordenez and GOS Minister of Labor Corbacho again voiced conflicting opinions about labor market reforms. Speaking separately, Fernandez Ordenez reiterated previous calls to make layoffs and wage adjustments easier for Spanish companies, while Corbacho continued to emphasize the importance of maintaining benefits and protections for workers. The Minister's solution to growing unemployment (now over 17% and the highest rate in the EU) involves modifying Spain's economic model, which, he said, is heavily reliant on construction and especially vulnerable during economic crises. Comment: In recent weeks, Fernandez Ordenez, appointed by Zapatero in 2006, has taken an increasingly public role in disagreeing with Corbacho. It may be that he is filling a perceived vacuum since the departure of former Second Vice President Pedro Solbes, who often would make public statements supporting orthodox economic policies when ministers would move in other directions. (El Pais, 6/17)

Number of Tourists Expected to Decline

3.(U) Spain will receive around 50 million tourists this year, 7.5 million fewer than in 2008, according to a projection from the Ministry of Industry, Tourism, and Commerce. The hotel association CEHAT also expects a decline from 2008's total, though it did not want to project a figure. (ABC, 6/18)

Gamesa Secures Six Wind Farm Projects in China

4.(U) Executives from wind turbine manufacturer Gamesa and Chinese energy provider Guangdong Nuclear Wind Power agreed on June 16 to a collaboration in which the Spanish company will construct six wind farms in China. The farms will eventually produce 253 megawatts by the project's completion in 2011. Gamesa will produce all of the turbines in Tianjin, China. (Expansion, 6/17)

Iberdrola Issues Stock to Reduce Debt

5.(U) Electricity generator and distributor Iberdrola raised 1.3 billion euros in capital from institutional investors on June 17, increasing its outstanding stock by 5%. The company is seeking to reduce its debt from 33 billion euros to 25 billion by the end of the year and maintain its A credit rating.

CHACON